



**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2001**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

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**STATE OF OHIO  
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**REPORT OF INDEPENDENT ACCOUNTANTS**

Members of the Board of Trustees  
Gateway Economic Development Corporation  
Cuyahoga County  
758 Bolivar Road  
Cleveland, Ohio 44115

We have audited the accompanying balance sheet, and the related statements of activity and cash flows of the Gateway Economic Development Corporation, Cuyahoga County, Ohio, (Gateway) as of and for the year ended December 31, 2001. These financial statements are the responsibility of Gateway's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gateway Economic Development Corporation, Cuyahoga County, Ohio, as of December 31, 2001, and the results of its operations and the cash flows in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13 to the financial statements, Gateway has experienced a cash flow shortfall at December 31, 2001. In addition, Gateway has experienced significant losses in the last five years. Gateway has relied on short and long term borrowing as well as nonrecurring revenue to pay its obligations as they come due. As described in Note 9 to the financial statements, Gateway has been unable to fund the capital maintenance account required by certain facility leases. Management's plan in regard to these matters is described in Note 13 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2002 on our consideration of Gateway's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

**Jim Petro**  
Auditor of State

April 8, 2002

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**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
 CUYAHOGA COUNTY  
 BALANCE SHEET  
 FOR THE YEAR ENDED DECEMBER 31, 2001**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$	1,962,981
Restricted Cash and Cash Equivalents		10,264,287
Receivables:		
Luxury Tax		1,448,443
Interest		492,644
Naming Rights		324,639
Prepaid Expenses and Other Assets		<u>62,359</u>
 Total Current Assets		 14,555,353

**Non Current Assets**

Restricted Cash and Cash Equivalents		4,221,852
Restricted Investments		7,880,970
Naming Rights Receivables		13,763,956
Deferred Costs, Net		7,044,234
Sports Facility Project:		
Land		23,108,049
Stadium		179,974,529
Arena		158,196,220
Site		40,195,778
Capitalized Costs		23,720,720
Furniture, Fixtures and Equipment		<u>201,698</u>
		458,308,006
Less: Accumulated Depreciation		<u>153,400,968</u>
 Sports Facility Project, Net		 304,907,038

Total Assets	\$	<u><u>319,462,391</u></u>
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The notes to the financial statements are an integral part of this statement.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
 CUYAHOGA COUNTY  
 BALANCE SHEET (Continued)  
 FOR THE YEAR ENDED DECEMBER 31, 2001**

**LIABILITIES AND EQUITY**

**Current Liabilities**

Accounts Payable	\$	12,334
Property Taxes Payable		930,962
Accrued Interest		1,500,938
Current Portion of Long Term Debt		13,484,753
Current Portion of Deferred Revenue		10,115,150
		10,115,150

Total Current Liabilities 26,044,137

**Non Current Liabilities**

Long Term Debt, Less Current Portion		282,781,108
Long Term Accrued Interest		22,248,036
Deferred Revenue, Less Current Portion		13,320,123
Refundable Deposits		4,689,302
		4,689,302

Total Long-term Liabilities 323,038,569

Total Liabilities 349,082,706

**Fund Equity**

Fund Equity (29,620,315)

Total Fund Equity (29,620,315)

Total Liabilities and Fund Equity \$ 319,462,391

The notes to the financial statements are an integral part of this statement.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
 CUYAHOGA COUNTY  
 STATEMENT OF ACTIVITY  
 FOR THE YEAR ENDED DECEMBER 31, 2001**

<b>Revenues</b>	
Luxury Tax	\$ 14,526,219
Premium Seating Revenue	4,276,957
Naming Rights Revenue	700,000
Lease Income	5,038,454
Interest Income	5,144,033
Incremental Transient Occupancy Tax Credit	212,180
Other	<u>595,924</u>
 Total Revenues	 30,493,767
<b>Expenses</b>	
Administrative and General	3,884,214
Depreciation and Amortization	20,347,041
Salaries and Related Expenses	109,125
Professional Fees	97,051
Property Tax Expense	926,259
Security Expense	572,189
Repairs and Maintenance	1,880,213
Interest Expense	<u>19,741,372</u>
 Total Expenses	 <u>47,557,464</u>
 <b>Net Excess of Revenues Over (Under) Expenses</b>	 <b>(17,063,697)</b>
 <b>Fund Equity Beginning of Year</b>	 <u>(12,556,618)</u>
 <b>Fund Equity End of Year</b>	 <u><u>\$ (29,620,315)</u></u>

The notes to the financial statements are an integral part of this statement.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
 CUYAHOGA COUNTY  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED DECEMBER 31, 2001**

**Operating Activities**

Net Excess of Revenues over (under) Expenses	\$ (17,063,697)
Less: Non-Capital Financing Luxury Tax	(14,526,219)
Adjustments to Reconcile to Net Cash Provided by Operating Activities:	
Depreciation and amortization	20,347,041
Realized loss on Sale of Investments	264,462
Net Changes in Operating Assets and Liabilities:	
Increase in Receivables	(61,153)
Decrease in Prepaid Expenses and Other Assets	14,146
(Decrease) in Accounts Payable	(47,318)
(Decrease) in Property Taxes Payable	(52,609)
Increase in Accrued Interest	1,461,923
(Decrease) in Deferred Revenue	(3,862,308)
(Decrease) in Deposits	<u>(300,000)</u>
Net Cash Provided by Operating Activities	(13,825,732)

**Non-Capital Financing Activities**

Luxury Tax Revenue	14,526,219
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**Capital and Related Financing Activities**

Proceeds from Bonds Payable	46,403,965
Proceeds from Notes Payable	8,022,774
Principal Paid on Bonds Payable	(54,284,320)
Principal Paid on Notes Payable	(1,036,256)
Cost of Bond Issue	(1,080,464)
Purchase of Fixed Assets for Arena	<u>(266,639)</u>
Net Cash Used in Capital and Related Financing Activities	(2,240,940)

**Investing Activities**

Proceeds from Sale of Investments	<u>6,965,876</u>
Increase in Cash and Cash Equivalents	5,425,423
Cash and Cash Equivalents at Beginning of Year	<u>11,023,697</u>
<b>Cash and Cash Equivalents at End of Year</b>	<b><u><u>\$ 16,449,120</u></u></b>

The notes to the financial statements are an integral part of this statement

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**1. DESCRIPTION OF THE REPORTING ENTITY AND BASIS OF PRESENTATION**

Gateway Economic Development Corporation, Cuyahoga County, Ohio, (Gateway) was incorporated on May 31, 1990 and is a governmental not-for-profit corporation legally separate from any other entity. Gateway, the City of Cleveland, and Cuyahoga County have entered into a three party agreement, whereby Gateway is authorized to construct, own, and provide for the operation of the sports facility, which includes a baseball stadium, arena and a joint development site (the Project). Substantially all of Gateway's assets are restricted as to use.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

Gateway follows the accrual basis of accounting whereby revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred.

Gateway applies a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included on the balance sheet. The Statement of Activity presents increases (e.g., revenues) and decreases (e.g., expenses) in fund equity.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to timing of the measurements made.

**B. Cash and Cash Equivalents**

Cash received by Gateway is deposited into checking accounts for short term needs or investment accounts under the direction of trustees appointed through the various financing agreements in order to pay long term debt principal and interest. For presentation on the balance sheet, investments with an original maturity of three months or less are considered cash equivalents.

**C. Investments**

Investments are stated at fair value per GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

**D. Sports Facility Project**

Costs directly attributable to the stadium, arena and site are separately classified in the financial statements. Joint or common costs are allocated to the project components based upon management's allocation. The Stadium and Arena were substantially completed April 1, 1994 and September 15, 1994, respectively.

The sports facility project is recorded on the basis of cost and is depreciated on a straight-line basis over the estimated useful life of each class of depreciable asset. Normal maintenance and repair costs are expensed as incurred.

Land contributed to Gateway in 1990 includes the acquisition and demolition cost of obtaining the land by Greater Cleveland New Stadium Corporation.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Federal Taxes**

Gateway is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code.

**3. LUXURY TAX**

Effective August 1, 1990, Cuyahoga County (the County) began to levy excise taxes on sales of liquor, cigarettes, beer, wine and mixed beverages in the County and will continue to do so for a period of fifteen years. Under the terms of the three party agreement between, Gateway, the City of Cleveland, and Cuyahoga County, the County has agreed to contribute the entirety of the luxury tax revenues to the payment of the costs of the sports facility and operations of Gateway during the capitalized interest period, which is equivalent to the construction period. After the capitalized interest period, the County pledged the luxury tax revenues to the payment of debt service obligations of Gateway and to pay costs of the sports facility. Any balance of such revenues is to be used to pay the costs of related economic development projects of the City of Cleveland.

Luxury tax receipts are transferred immediately upon receipt by the County to a bailee of luxury tax creditors (including the bond trustees). It is the duty of the bailee, by agreement to safekeep the luxury tax receipts, to invest the receipts and hold investment income, and to distribute luxury tax receipts only to those creditors entitled to receive the luxury taxes.

**4. DEPOSITS AND INVESTMENTS**

Gateway may invest the proceeds of various bond offerings (see Note 7) in authorized securities and deposits, including obligations of the federal government and its agencies, deposits with financial institutions, and other securities permitted by Gateway's financing agreements.

Gateway records the government securities held in the Senior Lien, Stadium Revenue and Subordinate Interest and Bond Funds at their fair value. Based upon the terms of the Debt Service Deposit Agreement, the following summarizes the balances in funds established by the trust indentures, at their amortized costs, at December 31, 2001:

	Senior Lien <u>Bonds</u>	Senior Lien Refunding <u>Bonds</u>	Stadium Revenue <u>Bonds</u>	Subordinate <u>Bonds</u>	<u>Total</u>
Interest fund	\$ 262	\$ 793,374	\$ 406,981		\$ 1,200,617
Bond fund	9,003	2,955,614	220,002		3,184,619
Reserve fund	<u>108</u>	<u>7,880,970</u>	<u>3,113,500</u>	<u>\$4,221,852</u>	<u>15,216,430</u>
	<u>\$9,373</u>	<u>\$11,629,958</u>	<u>\$3,740,483</u>	<u>\$4,221,852</u>	<u>\$19,601,666</u>

The following information classifies deposits and investment by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

*Deposits:* At fiscal year ended December 31, 2001, the carrying amounts of Gateway's deposits was \$108,637 and the bank balance was \$110,904. Of the bank balance, \$100,000 was covered by federal depository insurance and \$10,904 was uninsured and uncollateralized.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**4. DEPOSITS AND INVESTMENTS (Continued)**

*Investments:* Gateway's investments are categorized below to give an indication of the level of risk assumed by Gateway at fiscal year ended December 31, 2001. Category 1 includes investments that are insured or registered or for which the securities are held by Gateway or its agent in Gateway's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in Gateway's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in Gateway's name. Gateway's investment in money market mutual funds are unclassified investment since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Carrying Value</u>
Commercial Paper	\$ 7,880,970	\$ 7,880,970
Money Market Mutual Funds		16,340,483
Total	<u>\$7,880,970</u>	<u>\$24,221,453</u>

The classification of cash and cash equivalents, and investments on the general purpose financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the general purpose financial statements and the classification per GASB Statement No. 3 is as follows.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$16,449,120	\$ 7,880,970
Investments which are part of Money Market Mutual Funds	(16,340,483)	\$16,340,483
GASB Statement No. 3	<u>\$ 108,637</u>	<u>\$24,221,453</u>

**5. DEFERRED COSTS**

Deferred costs at December 31, 2001 consist of the following:

Organization	\$1,110,500
Financing	6,775,598
Lease Negotiation	4,387,356
Total Deferred Costs	12,273,454
Accumulated Amortization	(5,229,220)
	<u>\$7,044,234</u>

Organization costs associated with Gateway were amortized over the construction period. As of December 31, 1994, such costs were fully amortized.

Financing cost associated with issuing the Senior Lien Excise Tax Bonds that were unamortized were written off this year since the notes were refinanced. The net effect was an additional amortization expense of \$561,336.

The financing cost incurred with issuing the Senior Lien Excise Tax Refunding Bonds was capitalized and will be amortized over the life of the debt issue on a basis that approximates a constant rate of amortization of debt outstanding.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**5. DEFERRED COSTS (Continued)**

Financing cost associated with the Stadium Revenue Bonds, and the Subordinated Excise Tax Bonds (the "Bonds"), including original issue discount, if any, and the notes payable to Cuyahoga County are deferred and amortized over the life of the respective debt issue on a basis that approximates a constant rate of amortization of debt outstanding. Costs associated with credit enhancement are deferred and amortized over the respective life of each contract on a straight line basis.

Lease negotiation costs associated with the stadium and arena leases (see Note 9) are being amortized over the respective leases.

**6. CAPITALIZED COSTS**

There were no additions to capitalized costs during the year ended December 31, 2001. Capitalized costs consist of net interest expense capitalized, property taxes, legal fees, and indirect project costs incurred during the construction period. Capitalized costs are depreciated over 30 years.

**7. LONG-TERM OBLIGATIONS**

Long-term debt outstanding at December 31, 2001 is as follows:

	<u>Stated Interest Rate</u>	<u>Principal Outstanding</u>
Bonds Payable:		
Senior Lien Excise Tax Refunding Bonds, Issue 2001	4.125% - 5.125%	\$ 46,185,522
Stadium Revenue Bonds Serial bonds due September 15, 2002 through 2003; term bonds due September 15, 2014.	3.1% - 6.5%	\$ 25,131,837
Subordinated Excise Tax Bonds Term bonds due September 1, 2002 through 2005	6.4% - 7.5%	\$ 10,280,000
Notes Payable:		
Cuyahoga County	Variable	\$176,000,439
State of Ohio (\$4 million assumed from the Greater Cleveland New Stadium Corporation)	0% - 2.5%	\$ 8,918,063
Cleveland Development Partnership	3% - 6.25%	\$ 28,000,000
Cleveland Foundation /Cuyahoga County	3%	<u>\$ 1,750,000</u>
Total Long Term Debt		\$296,265,861
Less- current portion		<u>13,484,753</u>
Total long-term debt less current portion		<u>\$282,781,108</u>

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**7. LONG-TERM OBLIGATIONS (Continued)**

On December 27, 1990 Gateway issued approximately \$148 million of tax exempt bonds to be used primarily to pay for the cost of the stadium. The trust indentures generally require the establishment of the following funds:

FUND	PURPOSE
Escrow Fund	To account for the proceeds of the bonds until certain conditions are met.
Construction Fund	To account for the financial resources to be used for the construction of the stadium.
Bond Fund	To account for the accumulation of financial resources for the principal interest on the bonds.
Bond Reserve Fund	To account for the escrowed financial resources.
Rebate Fund	To account for any excess earnings from the bonds during the capitalized interest period as required by the Internal Revenue Code.

**A. Senior Lien Excise Tax Refunding Bonds**

The Senior Lien Excise Tax Refunding Bonds were issued during 2001 to refinance the Senior Lien Excise Bonds. The total proceeds from the bonds were \$45,557,523 representing the par amount of \$44,575,000, plus the original issue premium of \$1,828,965, minus the underwriter's compensation of \$937,465, plus accrued interest of \$91,023.

The net proceeds were used for the purpose of refunding all of the Senior Lien Excise Tax Bonds, Series 1990; \$7,585,000 of the Subordinated Tax Bonds maturing September 1, 2005; and the costs of issuing the bonds.

The bonds are presented net of unamortized premium of \$1,610,522 at December 31, 2001 and are guaranteed by an insurance policy issued by a municipal bond insurance company as to principal and interest. In accordance with the original trust indenture, the Funds were held in a Bond Reserve Fund and an Escrow Fund.

The current refunding resulted in a difference in cash flow requirements of \$2,465,994. An economic gain, which is the difference between the present value of the old and new debt service payments, of \$2,021,484 was obtained.

**B. Stadium Revenue Bonds**

The original Stadium Revenue Bonds were guaranteed by a letter of credit. On December 4, 1992, Gateway entered into a new letter of credit arrangement with a consortium of local financial institutions replacing the original letter of credit. The letter of credit restricted the use of the Stadium Revenue Bond proceeds, requiring Gateway to deposit approximately \$3,100,000 into a bond reserve fund and approximately \$3,000,000 into a renewal and replacement fund (for future capital improvements of the Stadium), and obtain a completion and cost overrun guaranty. Costs of \$819,287 related to the new letter of credit were incurred during 1992 and were included in deferred financing costs.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**7. LONG-TERM OBLIGATIONS (Continued)**

The Stadium Revenue Bonds were reoffered on December 16, 1993, converting the interest rate from variable to fixed. As a result of the reoffering, the Stadium Revenue Bonds are presented net of an unamortized discount of \$133,163 at December 31, 2001. This represents a substantive modification of the terms of the bonds and, as a result, the reoffering was accounted for as an extinguishment of debt. The repayment of the 1993 bond issue has been guaranteed by Cuyahoga County. As a result of the reoffering, Gateway eliminated the cash flow risk of a variable rate debt, eliminated the need for certain credit enhancements, and made certain funds previously restricted available for use in construction.

**C. Subordinated Excise Tax Bonds**

The Subordinated Excise Tax Bonds are guaranteed by Cuyahoga County through an annual appropriation of debt service.

During 2001, \$7,585,000 of the bonds maturing September 1, 2005 were refunded. The source of the funding was part of the proceeds of the Senior Lien Excise Tax Refunding Bonds. Additionally, the mandatory redemption requirements were reduced pro rata by the principal amount of the bonds redeemed. The restated maturity dates are as follows:

September 1, 2002	\$ 1,325,000
September 1, 2003	1,365,000
September 1, 2004	1,370,000
September 1, 2005	6,220,000

**D. Cuyahoga County Notes Payable**

On September 24, 1992, Cuyahoga County (the "County") issued \$75 million (\$35 million fixed rate and \$40 million variable rate) Taxable Economic Development Revenue Bonds. In conjunction with this bond issue, Gateway and the County entered into a Revolving Loan Agreement, whereby the County agreed to loan the bond proceeds to Gateway to pay Arena construction costs. On February 1, 1994, Cuyahoga County issued an additional \$45 million Taxable Economic Development Revenue Bonds. The Revolving Loan Agreement was amended to allow Gateway to borrow the additional proceeds. As of December 31, 2001, Gateway has borrowed \$176 million, including interest, under the Revolving Loan Agreement. Gateway is responsible to pay interest on the County bonds to the extent interest expense exceed interest earned by the County on bonds proceeds which have not been borrowed by Gateway. Interest payable included in the notes payable to the County totaled approximately \$69,925,783 at December 31, 2001. Financing costs of \$3.6 million, payable by Gateway in connection with the County Bond Offerings are also included in the notes payable liability. The associated expense of \$3.6 million is included in deferred financing costs.

Gateway entered into an Emergency Loan Agreement dated December 28, 1995 (effectuated in early 1996) in which Gateway received a total of \$11.5 million to pay for certain cost overruns that were incurred in the construction of the Gateway stadium and arena project. Of this amount, the agreement called for \$2.5 million to be repaid by the City of Cleveland, \$4 million to be repaid directly by Gateway, with the remaining \$5 million to be repaid by the Greater Cleveland Convention and Visitors Bureau (the "Bureau") pending negotiations regarding this repayment between Cuyahoga County and the Bureau. At that time, Gateway determined that the \$5 million to be repaid by the Bureau was not a legal obligation of Gateway and, therefore, recognized this amount as revenue in 1996 pending the outcome of the negotiations between Cuyahoga County and the

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**7. LONG-TERM OBLIGATIONS (Continued)**

**D. Cuyahoga County Notes Payable (Continued)**

Bureau. In 2001, the Bureau paid \$212,180 as their contribution to the Gateway project pursuant to the amended Cooperative Agreement (see note 12). During 1999, the issue of the \$5 million dollar portion of the Emergency Loan Agreement was re-evaluated by Cuyahoga County and Gateway. As of March 21, 2000, Cuyahoga County is of the opinion that the \$5 million was a legal liability of Gateway. The management of Gateway is currently reviewing this issue to determine if a legal liability in fact exists. However, based on historical trends, Gateway may not and probably will not be able to pay back this amount to Cuyahoga County. Accordingly, this amount is not reflected as an accounting liability and prior fund equity was not restated on Gateway's balance sheet as of December 31, 2001.

**E. State of Ohio Notes Payable**

Four million was borrowed by the Greater Cleveland New Stadium Corporation from the State of Ohio for land acquisitions on June 23, 1986. The Greater Cleveland New Stadium Corporation was later merged into Gateway on November 19, 1990. On December 17, 1990, Gateway and the State of Ohio entered into an amended and restated loan agreement. The agreement allows for the forgiveness of interest immediately, and the forgiveness of principal, if certain conditions are met. The forgiveness of principal will be accounted for when and if all conditions are satisfied. The note is due immediately, if any of the conditions are violated. As Gateway is in compliance with the terms and conditions of the note, the note is classified as long-term as of December 31, 2001.

Gateway entered into a new loan agreement with the Ohio Department of Development on April 20, 1994 for \$12 million. The principal and interest on the note and service fees are payable in 12 annual installments, due and payable on September 1 of each year, beginning in 1994. Interest payable at a rate of 2.5% annually.

**F. Cleveland Development Partnership Notes Payable**

The Cleveland Development Partnership and Gateway have entered into two loan agreements for a total of \$28 million. Per the agreements, payment is only to be made on this amount by Gateway out of "surplus cash" as specifically defined in the loan agreements.

**G. Debt to Maturity**

The following schedule represents future principal payments on total long-term debt:

2002	\$13,484,753
2003	15,834,034
2004	15,319,120
2005	28,905,156
2006	2,000,000
Thereafter	<u>219,245,439</u>
	<u>\$ 294,788,502</u>

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**7. LONG-TERM OBLIGATIONS (Continued)**

**G. Debt to Maturity (Continued)**

Included in the "Thereafter" amount are amounts due on the Cleveland Development Partnership note payable of \$28 million and the Cleveland Foundation/Cuyahoga County note payable of \$1.75 million. The \$28 million is not included in prior years' scheduled principal payments because it is only payable out of "surplus cash" as specifically defined in the loan agreement with the Cleveland Development Partnership and after various other obligations are paid first. Based on historical trends, Gateway may, and probably will not earn the required revenues in order for the payment obligation on this note to occur. The \$1.75 million note payable to the County is due to have repayment starting July 1999 (per additional payment under the revolving loan agreement with Cuyahoga County). Based on historical trends, Gateway may, and probably will not earn the required revenues in order for Gateway to meet the repayment obligation on this note.

**8. DEFERRED REVENUE**

Deferred revenue at December 31, 2001 consists of the following:

Premium Seating Revenue, net	\$ 4,581,042
Naming rights revenue	10,735,416
Prepaid lease income:	
Stadium	376,379
Arena	6,297,716
Interest Income	<u>1,444,720</u>
Total Deferred Revenue	23,435,273
Less – current portion	<u>(10,115,150)</u>
	<u><u>\$13,320,123</u></u>

In December, 1991, Ballpark Management Company, an affiliate of the Cleveland Indians, entered into the Premium Seating License agreements for the benefit of Gateway, with various companies to license private suites at the stadium for ten years beginning in 1994. Deposits and the related interest earned totaling \$21,813,304 at March 31, 1994, were held in an escrow account until substantial completion of the Stadium. The deferred premium seating revenue is amortized over the term of the license agreements beginning in April, 1994, when construction of the Stadium was completed.

Gateway entered into an agreement with the previous owner of the Cleveland Indians, Richard E. Jacobs, for the sale of naming rights of the baseball complex for twenty years. Annual payments are to be made by the Cleveland Indians on September 15 through the year 2013. The first ten annual payments are to be \$400,000 and the last ten payments are to be \$986,893. The contract has been recorded as deferred revenue at its present value of \$7 million. Naming rights revenue is recognized on a straight line basis over the life of the contract. Interest income is recognized based upon the effective interest rate of 6.3%. The related naming rights receivable balance at December 31, 2001 is \$7,055,456 including a current portion of \$272,663.

Effective September 15, 1994, Gateway and Gund Business Enterprises entered into an agreement for the sale of naming rights of the arena for 33 years. Annual payments are to be made by Gund Business Enterprises on March 15 through the year 2015. The first ten annual payments are to be \$400,000 and the last ten payments are to be \$986,893. An amount of \$2 million was paid in 1994 for the period September 15, 2014 through September 15, 2027. The contract has been recorded as deferred revenue as its present value of \$9 million. Naming rights revenue is recognized on a straight line basis over the life of the contract periods. Interest income is recognized based upon the effective interest rate of 6.3%.

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**8. DEFERRED REVENUE(Continued)**

The naming rights receivable balance at December 31, 2001 is \$7,033,140, including a current portion of \$51,977.

In accordance with the Ballpark Management lease agreement, Gateway received \$376,379 from the Cleveland Indians representing 2002 debt service on the Stadium Revenue Bonds. The revenue will be recognized upon the payment debt services, which is paid directly to the Trustee for the Stadium Revenue Bonds by the Cleveland Indians (also see Note 9).

During 1994, Gateway received \$4 million from the owners of the Cavaliers. During 1995, an additional \$3.8 million was received. These amounts were advanced by the Cavaliers to Gateway to fund additional construction costs related to the arena. At December 31, 1995, these amounts were recorded as deferred revenue and prepaid rent by Gateway.

During 1996, Gateway and the owners of the Cavaliers reached a settlement agreement whereby the owners of the team agreed to forgive \$7 million of the \$7.8 million referred to herein for certain consideration, apply \$300,000 to team obligations and Gateway would pay the team \$500,000. As of December 31, 2001, deferred revenue of \$6,297,716 represents prepayment of rent by the team's owners.

**9. LEASES**

On July, 3, 1991, Gateway entered into a 20 year lease agreement with the Cleveland Indians and Ballpark Management Company providing for the lease of the Stadium and related improvements as well as management and operation of the stadium, Gateway reimbursed the Cleveland Indians for certain pre-opening marketing costs.

The significant provisions of the leases are as follows:

- § Gateway will receive annually, during the life of the lease terms, the lesser of \$2.95 million or the net debt service on the Stadium Revenue bonds.
- § The Indians will annually pay Gateway an amount using a predetermined formula which starts at \$.75 per ticket for annual attendance over 1,850,000.
- § Gateway must establish a capital maintenance fund to accumulate funds for the repair and maintenance of the ballpark. As of December 31, 2001, \$1,139,636 was deposited in a capital maintenance fund and is included in cash.

On December 20, 1991, Gateway entered into a 30 year lease agreement with the Cavaliers Division of Nationwide Advertising Services, Inc. (a division of Gund Business Enterprises) providing primarily for the lease of the arena. The lease agreements and subsequent amendments require that Gateway shall cause the County to provide \$120 million to be deposited into the County Guaranty Escrow Fund and used to meet certain arena obligations during the construction period. The Cavaliers lease agreements also provide that Gateway must issue or cause the City of Cleveland to issue on-site parking bonds with proceeds deposited into an On-Site Parking Construction Draw Account (See Note 10).

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**9. LEASES (Continued)**

The significant provisions of the leases are as follows:

- § Gateway will receive annual payments consisting of 27.5% of Executive Suite Revenue (as defined), and 48% of club seat revenue (as defined), and, additional payments based on attendance (as defined).
- § Gateway will pay certain parking revenue to the Cavaliers based on a predetermined formula (as defined) with a minimum annual payment of \$1.5 million.
- § Gateway must establish a capital maintenance fund to accumulate funds for the payment of repairs and maintenance. This fund was not established as of December 31, 2001.

**10. PARKING FACILITIES**

On October 15, 1992, the City of Cleveland issued \$71,000,000 for Parking Facility Improvement Revenue Bonds to finance the construction of, among others, the Gateway onsite and offsite garages. The garages are to be owned by the City; however, construction was managed by Gateway.

The City and Gateway have also entered into an agreement providing for the payment of debt services on the City's Parking Bonds. Pursuant to the agreement, Gateway is liable for the debt service on the Parking Bonds allocated to the Gateway Parking Facilities, payable only from the net revenues of the parking facilities. Net revenues from the garages are pledged first to the City for payment of debt service and secondly to the teams in accordance with their lease agreements. The liability for payment of this debt service lies with the City of Cleveland and, therefore, is not included as a liability on Gateway's balance sheet. Accordingly, the net revenues of the parking facilities are not reflected in Gateway's revenues on their Statement of Activity.

**11. RISK MANAGEMENT**

Gateway has obtained commercial insurance for the following risks:

- § Commercial general liability and garage keepers automobile liability.
- § Directors, Officers, and Trustees liability.

Gateway also provides health, dental, vision, and life insurance for one full-time employee through a group program sponsored by the Council of Smaller Enterprises (COSE).

**12. INCREMENTAL TRANSIENT OCCUPANCY TAX CREDIT**

Gateway, Cuyahoga County and The Convention and Visitors Bureau of Greater Cleveland, Inc. (the "Bureau") entered into a Cooperative Agreement (known commonly as the "Bed Tax Agreement") as of September 15, 1992 (the "Cooperative Agreement") which included a provision that allowed a credit to be given to Gateway as payment on the Cuyahoga County Note Payable (for the Arena Bonds issued by Cuyahoga County discussed in Note 7, which will be referred to herein as the "Gateway Account"). This amount represents the incremental amount the Bureau receives from the County Transient Occupancy Tax, per Section 5739.024, Ohio Revised Code (the "Bed Tax"), which is understood to be generated by new Gateway attendees' utilization of overnight accommodations in the County (the "Annual Incremental Credit"). This credit was to be determined pursuant to and in accordance with a certain Consultant Agreement to be entered into by and among Cuyahoga County, the Bureau and

**GATEWAY ECONOMIC DEVELOPMENT CORPORATION  
CUYAHOGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**12. INCREMENTAL TRANSIENT OCCUPANCY TAX CREDIT (Continued)**

Gateway. This agreement stated in part that “for 1994 or such later year that the Arena Facility is first used, the Bureau shall credit to the Gateway Account the amount determined pursuant to the Consultant Agreement within 10 days of notice thereof. For succeeding years, the Bureau is to credit to the Gateway Account the applicable Annual Incremental Credit as limited by the Bureau’s receipt of Bed Tax revenues, as provided” by the Consultant Agreement. Due to no fault of any of the parties, a Consultant Agreement had never been entered into and the Bureau had never credited any amount to the Gateway Account.

Per an agreement entered into between Gateway, Cuyahoga County and the Bureau on December 22, 1998, the Cooperative Agreement was amended by the parties redefining the Annual Incremental Credit and providing for the deposit by the Bureau to the Gateway Account for calendar years 1994 through 1998 a specific sum of money. Per this agreement, the parties have defined the Annual Incremental Credit to mean the amount of \$200,000 per calendar year for a total of \$1 million dollars, which was credited to the Gateway Account in 1999. For subsequent years, the Annual Incremental Credit will be determined upon Cuyahoga County certifying to the Bureau the amount paid during the calendar year on bond services charges for up to \$75,000,000 on the Arena Bonds (see Note 7) accompanied by a financial statement of Gateway reflecting its need to pay any amount not funded from other Gateway revenue. The Annual Incremental Credit for the year 2001 amounted to \$212,180. Such credit will be limited to the difference between the debt service required by the Arena Bonds and the amounts paid by Gateway to Cuyahoga County, if any, along with any other credits. The annual increase of this credit will be capped at no more 3% greater than the prior calendar year’s credit. Since payment of the Annual Incremental Credit will only be advanced upon the aforementioned certification and delivery of a financial statement from Gateway, this revenue will be recognized by Gateway in the year in which the credit is received. The \$1 million for calendar years 1994 through 1998 reflected in 1999, \$186,488 for the year 2000 and \$212,180 for the year 2001 was reflected on Gateway’s Statement of Activity for their respective years, as revenue as well as a corresponding reduction to Long-Term Debt (specifically the Cuyahoga County Note Payable) as reflected on Gateway’s balance sheet.

**13. SUBSEQUENT EVENT**

Gateway has experienced a cash flow shortfall for the year ended December 31, 2001. In response to this condition, Gateway is developing a final strategy to stabilize its cash flows. Options include, but are not limited to, short term commercial bridge loans, restructuring of debt and negotiations with business partners. Gateway is also working toward developing new revenue streams such as on-site limousine parking, promotional events on the plaza and selling naming rights to the plaza.

Gateway will continue to operate. Through various lease provisions with the teams, they will pay Gateway’s expenses until there are sufficient resources for Gateway to resume paying expenses on its own. Per the lease provisions, Gateway is required to reimburse the teams for the payments made on Gateway’s behalf, including interest.

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**STATE OF OHIO  
OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON  
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Trustees  
Gateway Economic Development Corporation  
Cuyahoga County  
758 Bolivar Road  
Cleveland, Ohio 44115

We have audited the financial statements of the Gateway Economic Development Corporation, Cuyahoga County, Ohio, (Gateway) as of and for the year ended December 31, 2001, and have issued our report thereon dated April 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Gateway's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Gateway's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted another matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of Gateway in a separate letter dated April 8, 2002.

This report is intended for the information and use of the audit committee, management, and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

**Jim Petro**  
Auditor of State

April 8, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**GATEWAY ECONOMIC DEVELOPMENT CORPORATION**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 5, 2002**